Canadian Grain Commission | Commission canadienne des grains

Future-oriented statement of operations

(unaudited)

2014-15

Canada

Canadian Grain Commission

Notes to the Future-Oriented Statement of Operations (unaudited)

1. Authority and Objectives

The CGC Revolving Fund ["CGC", the "Revolving Fund" or the "Fund"] derives its authority from the *Canada Grain Act* ["CGA"]. The CGC's mandate as set out in the *Canada Grain Act* is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

2. Methodology and Significant Assumptions

The future-oriented financial statements have been prepared on the basis of the government priorities and the plans of the department as described in the *Report on Plans and Priorities*.

The information in the estimated results for fiscal year 2013-14 is based on actual results as at November 30, 2013 and forecast for the remainder of the fiscal year. Estimated year end information for 2013-14 is used as the opening position for the 2014-15 planned results, and forecasts have been made for the planned results for the 2014-15 fiscal year.

The main assumptions underlying the forecasts are as follows:

(a) Fiscal 2014-15 is a second transition year as a result of amendments the *Canada Grain Act* (*CGA*) and implementation of updated user fees on August 1, 2013. Fiscal year 2014-15 reflects revenues and expenditures at the CGC's sustainable funding structure that is based on the 2014-15 business plan. The CGC's activities will be concurrently reflecting changes to the *CGA*.

(b) In response to both the legislative amendments and restructured user fees, the CGC's workforce, organizational design and operations will be adjusted going forward. The CGC has worked with Central Agencies to access funding to support Work Force Adjustment ["WFA"] for fiscal year 2014-15.

(c) Based on current contract settlements there will be significant liquidation of severance in 2014-15.

These assumptions are adopted as at November 30, 2013.

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3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to accurately forecast final results for the remainder of 2013-14 and for 2014-15, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

In preparing these financial statements, the CGC has made estimates and assumptions concerning the future. These estimates and judgments may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the future-oriented financial statements and the historical financial statements include:

- Economic conditions in relation to grain volumes may affect both the amount of revenue earned and the collectability of accounts receivable.
- Further changes to the operating budget through additional new initiatives or technical adjustments later in the year.
- The timing and amounts of acquisitions and disposals of property, plant and equipment may affect gains/losses and amortization expense.
- Implementation of new collective agreements.

Once the *Report on Plans and Priorities* is presented, the CGC will not be updating the forecasts for any changes in financial resources made in ensuing supplementary estimates. Variances will be explained in the Departmental Performance Report.

Notes to the Future-Oriented Statement of Operations (unaudited)

4. Summary of Significant Accounting Policies

The future oriented financial statements have been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector, except employee vacation, termination benefits and severance liabilities are based on management's estimate of the liabilities rather than based on actuarial estimates.

The significant accounting policies are as follows:

a. Parliamentary appropriation

The ongoing Parliamentary appropriation received for the Grain Research Laboratory and Internal Audit expenditures has been recorded as revenue of the Fund. The cash accounting basis is used to recognize transactions affecting parliamentary appropriations. The future-oriented financial statements are based on accrual accounting. Consequently, items presented in the Future-oriented Statement of Operations are not necessarily the same as those provided through appropriations from Parliament. Note 5 provides a reconciliation between the bases of reporting.

b. Revenues

Revenues are presented on an accrual basis and are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Revenues that have been received but not yet earned are presented as deferred revenue, provided the CGC has an obligation to other parties for the provision of goods, services or the use of assets in the future. Deferred revenue is primarily received for licensing fees which cover a 12-month period.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenues takes place.

c. Expenses

Expenses are presented on an accrual basis:

- Expenses for the Department operations are recorded when goods are received or services are rendered.
- Vacation pay and compensatory leave are accrued and expenses are recorded as the benefits are earned by employees under their respective terms of employment.

Notes to the Future-Oriented Statement of Operations (unaudited)

d. Employee future benefits

- Employee severance benefits: Severance benefits are accrued and expenses are recorded as the benefits are earned by employees with the Government of Canada as stipulated in their collective agreements.
- Pension plan: Employees of the CGC are covered by the *Public Service Superannuation Act* and the *Supplementary Retirement Benefits Act*. The Government of Canada's portion of the pension cost is included in the employee benefit charge assessed against the Revolving Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts. Current legislation does not require the CGC to make contributions for any actuarial deficiencies of the Public Service Superannuation account.

e. Tangible capital assets

Certain assets previously under the custody of the Department of Agriculture and Agri-Food Canada were assumed by the Revolving Fund on April 1, 1995. The assumed assets were considered to be contributed capital and recorded at the Crown's estimated net book value. Assets acquired subsequent to April 1, 1995 were recorded at cost. Proceeds from the disposal of capital assets are retained by the Revolving Fund.

All tangible capital assets and leasehold improvements with a cost equal to or greater than $10,000 are capitalized at their acquisition cost.

Assets are amortized on a straight-line basis over their estimated useful lives, commencing in the month after acquisition, as follows:

Scientific equipment	5 years
Office equipment and furniture	5 years
Operational equipment	10 years
Motor vehicles	5 years
Computer equipment and software	3 years
Leasehold improvements	5 years (term of the lease)

f. Vacation pay

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment and are recorded in the accounts at year end based on employee records

g. Interest on drawdown

Interest is charged to the Revolving Fund at a rate set by the Treasury Board. Interest charges are calculated monthly on the balance of the accumulated net charge against the Fund's authority. The Treasury Board does not pay interest when a surplus arises that result in no drawdown against the authority.

Notes to the Future-Oriented Statement of Operations (unaudited)

h. Measurement uncertainty

The preparation of these financial statements in accordance with Canadian generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include salaries payable related to unsettled labour contracts, the useful life of tangible capital assets, the variability of annual grain volumes which can fluctuate up to 20 percent from year-to-year resulting in variable revenue from fees, and the liabilities for employee vacation, severance benefits and employee termination benefits. Actual results could differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

Notes to the Future-Oriented Statement of Operations (unaudited)

5. Parliamentary Appropriations

The CGC is financed by the Government of Canada through a combination of an ongoing appropriation, authority to re-spend fees collected, accumulated surpluses from prior years and a revolving line of credit of $2 million. Financial reporting of authority provided to the CGC do not parallel financial reporting according to generally accepted accounting principles since authority are primarily based on cash flow requirements. The CGC has not drawn on its line of credit since 2003-2004. Fiscal 2014-15 is a second transition year in which the CGC is moving towards financial sustainability as a result of amendments the *Canada Grain Act* and implementation of updated user fees on August 1, 2013.

Items recognized in the future oriented statement of operations in one year may be funded through parliamentary appropriations in prior, current or future years. Accordingly, the CGC has different results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables.

a) Authorities requested:

	Forecast 2015	Estimated 2014
	(in thousands of dollars)	
Authorities		
Program Expenditure - Vote 30	7,537	34,031
Statutory		
Contributions to employee benefit plan	900	3,538
Revenue Credited to Vote	54,060	47,399
Access to Accumulated Revolving Fund Surplus	7,946	16,177
	62,907	67,114
Total Authorities received	70,444	101,145
Carry Forward Severance		(7,946)
Frozen allotment and lapse		(2,110)
Total Authorities Available	70,444	91,089

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Notes to the Future-Oriented Statement of Operations (unaudited)

Authorities for the years ending March 31, 2014 and March 31, 2015 include amounts presented in the Main Estimates, Supplementary Estimates (A) and (B), planned for presentation in Supplementary Estimates (C), estimates of amounts to be allocated at year-end from Treasury Board central votes and other authorities provided by Treasury Board.

b) Reconciliation of the total expenses to requested authorities:

	Forecast 2015	Estimated 2014
	(in thousands of dollars)	
Total expenses (accrual basis)	**59,246**	**60,715**
Less:		
Adjustments for items affecting total expenses but not affecting authorities:		
Amortization of tangible capital assets	3,051	2,711
Increase in employee future benefits	810	1,259
Others (prepaid, deferred revenue, etc.)		517
	3,861	4,487
Add:		
Adjustments for items not affecting total expenses but affecting authorities:		
Acquisitions of tangible capital assets	4,167	3,493
Employee future benefits	7,946	5,139
Employee Termination Benefit	2,945	13,117
Others (WFA Operating)		1,960
	15,059	23,709
Total expenses (cash basis)	**70,444**	**79,937**
Projected revolving fund surplus		11,153
Total Authorities	**70,444**	**91,089**

Notes to the Future-Oriented Statement of Operations (unaudited)

6. Employee Future Benefits

The CGC provides severance benefits to its employees based on eligibility, years of service and final salary. These benefits are currently funded through a monthly salary accrual based on a calculation of the actual severance liability owed per employee.

With Budget 2011, the Government of Canada announced its intention to eliminate the ongoing accumulation of severance benefits. As collective agreements are negotiated, it is expected that severance benefits will cease to accumulate and employees will be given the option to liquidate immediately.

	Forecasted 2015	Estimated Results 2014
	(in thousands of dollars)	
Employee severance benefits, beginning of year	8,177	12,057
EBP rate adjustment	(231)	
Adjusted total	7,946	12,057
Expense for the year	810	1,259
Benefits paid during the year	(5,660)	(5,139)
Employee severance benefits, end of year	3,097	8,177

Potential impacts of changes in collective agreements have not been reflected in forecasted amounts.

7. Lease Commitments

Operating leases for office accommodation have been primarily entered into with Public Works and Government Services Canada. Future minimum annual lease payments over the next five years are estimated as follows:

		Forecast (in thousands of dollars)
Year ending March 31,	2015	5,585
	2016	5,193
	2017	4,734
	2018	4,195
	2019	4,086

Occupancy Instruments are not reflected past their expiry dates.

Notes to the Future-Oriented Statement of Operations (unaudited)

8. Contingent Liabilities

Claims have been made against the CGC in the normal course of operations. Management believes that these claims are without merit. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

9. Related Party Transactions

The CGC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The CGC enters into transactions with these entities at arm's length in the normal course of business and on normal trade terms.

Services provided by other government departments

During the year, the CGC paid rent, legal and translation services to other government departments or agencies. Employer's health insurance plan contributions and employee benefit plans were also provided by and paid to other government departments. Significant services have been recognized in the CGC statement of operations as follows:

	Forecasted 2015	Estimated Results 2014
	(in thousands of dollars)	
Employer's contribution to employee benefit plans	7,346	9,709
Rent	5,585	5,016
Translation services	300	300
Legal services	400	400

10. Insurance

In accordance with the Government's policy of self-insurance, the CGC does not carry its own insurance.

11. Income Taxes

The CGC is not subject to income taxes.

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FUTURE-ORIENTED STATEMENT OF OPERATIONS (unaudited) - 2014-2015

(in dollars)

For the year ending March 31

	Quality Assurance	Quantity Assurance	Grain Quality Research	Producer Protection	Internal Services	2014-15 Total	2013-14 Total
Service Fees	32,288,363	3,136,175	1,312,089	1,242,578	16,081,098	54,060,303	49,988,150
Appropriations	1,316,235	1,119,670	5,425,974	98,500	457,032	8,417,411	35,882,416
Total Revenue	**33,604,598**	**4,255,845**	**6,738,063**	**1,341,078**	**16,538,130**	**62,477,714**	**85,870,566**
Salaries	22,684,814	2,204,815	4,047,211	944,565	12,331,744	42,213,148	45,024,215
Operational travel	882,100	85,734	157,376	36,729	479,521	1,641,461	1,483,854
Rent	3,101,676	301,463	553,372	129,150	1,686,109	5,771,769	5,016,381
Amortization	1,468,234	151,325	863,810	199,851	367,614	3,050,834	2,710,516
Other operating costs	3,530,228	343,115	629,830	146,994	1,919,076	6,569,243	6,479,626
Total Expenses	**31,667,052**	**3,086,452**	**6,251,598**	**1,457,289**	**16,784,064**	**59,246,455**	**60,714,592**
Net Surplus	**1,937,546**	**1,169,393**	**486,465**	**(116,211)**	**(245,934)**	**3,231,259**	**25,155,974**

The accompanying notes form an integral part of these future-oriented financial statements.
Service fees allocations are based on anticipated costs.